

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Heritage Commerce Corp

Point of Contact:	Larry McGovern (408-494-4562)	RSSD: (For Bank Holding Companies)	2209553
UST Sequence Number:	55	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	40,000,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	November 21, 2008	City:	San Jose
Date Repaid ¹ :	N/A	State:	California

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

During 2011, the Company made total loan commitments of \$533.4 million, representing \$180.5 million in commitments for new loans and \$352.9 million in renewed loans.

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☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

SBA loan originations totaled \$14.5 million in 2011.

☒ **Increase securities purchased (ABS, MBS, etc.).**

The Company made net purchases of \$203.2 million of agency mortgage-backed securities during 2011.

☐ **Make other investments.**

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☐ Increase reserves for non-performing assets.

☒ Reduce borrowings.

The Company reduced its securities sold under agreement to repurchase from \$5.0 million at December 31, 2010 to \$0.0 million at December 31, 2011.

☐ Increase charge-offs.

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<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution.
Empty space for response	

<input type="checkbox"/>	Held as non-leveraged increase to total capital.
Empty space for response	

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

During 2011, the Company made total loan commitments of \$533.4 million, representing \$180.5 million in commitments for new loans and \$352.9 million in renewed loans. Total loans outstanding decreased from \$846.0 million at December 31, 2010 to \$764.6 million at December 31, 2011 due to the timing of funding loan commitments, net charge-offs, loan payoffs, principal paydowns, and the payoff of classified assets. However, the Company also made net purchases of \$203.2 million of agency mortgage-backed securities during 2011 for its investment securities portfolio to replace the loan runoff. The CPP funds permitted the Company to absorb deterioration in its loan portfolio and remain "well-capitalized" until it was able to complete a private placement of convertible preferred stock for \$75 million in the second quarter of 2010 which significantly improved the Company's regulatory capital ratios and thus improved its financial position. While accomplishing the capital raise to improve its financial position, the Company was able to continue lending as described above. The \$533.4 million in loan commitments made during 2011, were primarily to small business and nonprofit organizations which helped employment and people in need, and supported the communities the Company serves in the San Francisco Bay Area. Additionally, by purchasing the agency mortgage-backed securities, the liquidity of such mortgage market was enhanced.